

Washington State Auditor's Office

Audit Report

Audit Services

Report No. 57905

LINCOLN COUNTY, WASHINGTON

January 1, 1995 Through December 31, 1995

Issue Date: December 20, 1996

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LINCOLN COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Compliance With Laws And Regulations
At The Financial Statement Level (Plus Additional State Compliance
Requirements Per RCW 43.09.260)**

Chairman of the Board of Commissioners
Lincoln County
Davenport, Washington

We have audited the financial statements, as listed in the table of contents, of Lincoln County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated October 21, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to Lincoln County is the responsibility of the county's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the county's compliance with certain provisions of laws, regulations, contracts, and grants.

We also performed additional tests of compliance with state laws and regulations as required by *Revised Code of Washington* (RCW) 43.09.260. This statute requires the State Auditor to inquire as to whether the county complied with the laws and the *Constitution of the State of Washington*, its own ordinances and orders, and the requirements of the State Auditor's Office. Our responsibility is to examine, on a test basis, evidence about the county's compliance with those requirements and to make a reasonable effort to identify any instances of misfeasance, malfeasance, or nonfeasance in office on the part of any public officer or employee and to report any such instance to the management of the county and to the Attorney General. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with these provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of material noncompliance that are required to be reported herein under *Government Auditing Standards*. However, we noted instances of noncompliance immaterial to the financial statements which are identified in the Schedule of Findings accompanying this report.

We also noted matters involving noncompliance with laws and regulations related to federal financial assistance which were reported to the county's management in our reports on general requirements, specific requirements for major programs, and specific compliance for nonmajor program transactions, and in the Schedule of Federal Findings.

This report is intended for the information of management and the chairman of the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record

and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

October 21, 1996

LINCOLN COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Internal Control Structure
At The Financial Statement Level**

Chairman of the Board of Commissioners
Lincoln County
Davenport, Washington

We have audited the financial statements of Lincoln County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated October 21, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the county is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with the prescribed basis of accounting. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the county, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The matters involving the internal control structure and its operation that we consider to be reportable conditions are included in the Schedule of Findings accompanying this report.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described in the Schedule of Findings is a material weakness.

We also noted matters involving compliance with laws and regulations related to federal financial assistance which were reported to the county's management in our reports on general requirements, specific requirements for major programs, and specific compliance for nonmajor program transactions, and the Schedule of Federal Findings.

This report is intended for the information of management and the chairman of the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

October 21, 1996

LINCOLN COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

Schedule Of Findings

1. The County Should Comply With Budget Laws And Regulations

During our review of the 1995 budget, we identified procedural weaknesses concerning the timeliness of amendments and extensions to budget appropriations.

The largest budget amendment was approved on December 20, 1995. It affected seven county funds and nine departments within the Current Expense Fund, and totaled \$908,592 or 88 percent of total annual adjustments. There was a budget extension to the Environmental Health Fund of \$3,800 approved on December 20 and an extension to the Equipment Rental and Revolving Fund of \$65,000 approved after year end.

The cause of these late amendments and extensions is the lack of management oversight as it relates to the status of the budgeted appropriations against the actual expenditures on a regular basis. Additionally, this large year-end budget amendment has been an ongoing practice intended to make all necessary corrections before the close of the fiscal year.

RCW 36.40.130. states that:

Expenditures made, liabilities incurred, or warrants issued in excess of any of the detailed budget appropriations or as revised by transfer . . . shall not be a liability of the county, but the official making or incurring such expenditures or issuing such warrants shall be liable therefor personally and upon his official bond. The county auditor shall issue no warrant and the county commissioners shall approve no claim for any expenditures in excess of the detailed budget appropriations

RCW 36.40.100 states in part:

The estimates of expenditures itemized and classified as required in RCW 36.40.040 and as finally fixed and adopted in detail by the board of county commissioners shall constitute the appropriations for the county for the ensuing fiscal year; and every county official shall be limited in the making of expenditures or the incurring of liabilities to the amount of the detailed appropriation items or classes respectively . . . upon a resolution formally adopted by the board at a regular or special meeting and entered upon the minutes, transfers or revisions within departments, or supplemental appropriations to the budget from unanticipated federal or state funds may be made

The effect of the procedural weaknesses is to circumvent the intent of the budgetary process which is to effectively manage the resources of the county. By failing to amend budgets in a timely manner, officials risk overexpending appropriations which is in direct violation of the above RCWs.

We recommend the county develop and implement procedures to ensure that all budget amendments and extensions be made in a timely manner.

Auditee's Response

The County will attempt to implement procedures to ensure budget amendments and extensions are done in a timely manner.

2. The County Should Comply With Disclosure Requirements For Minutes Of The Board Of Commissioners Meetings

The minutes of the board of commissioners meetings did not include all approved expenditures. Additionally, there was no verbiage within the body of the minutes that commissioners have read and approved minutes of prior meetings as presented, nor were approving signatures evident.

This weakness was caused by a lack of understanding of the requirements for disclosure in the minutes which are the official record of commissioner's meetings.

The *Budgeting, Accounting and Reporting System* (BARS) manual, 1.3.3.25 provides distinct verbiage for presentation of expenditure approval as follows:

To indicate governing body approval for payment of claim vouchers and payroll, the following should be entered in the minutes:

The following voucher/warrants are approved for payment:		
(Funds)		Total
Voucher (warrant) numbers:	___ through ___	\$ ___
Payroll warrant numbers:	___ through ___	\$ ___

The effect of this weakness was to not adequately provide all necessary disclosures in a document of public record. This also led to a lack of authorization for the disbursement of the approved vouchers which were not included in the minutes.

We recommend the county implement procedures to ensure that all required items be disclosed in the minutes and that they be properly approved and signed.

Auditee's Response

With the assistance of the State Auditor's Office, steps are already being taken to reformat minutes and implement approval procedures.

3. The County's Internal Control Procedures Should Be Improved

Our audit identified many weaknesses in the internal controls over county assets. Examples of those weaknesses are:

District Court

- District Court does not deposit receipts in a timely manner. The court maintains unrecorded, undeposited receipts in an insecure area within the department. Once receipts are deposited, they are held in a checking account and transmitted to the treasurer at month end.

- Reports from the court system, which show adjustments to accounts receivable, are not independently reviewed or approved to ensure the propriety of each transaction.
- Review and reconciliation of the trust account is not being done on a regular basis.

County Road Department

- The Equipment Replacement and Revolving (ER&R) Fund does not have a general ledger in its accounting system. Without a general ledger, there is not adequate assurance that the revenues and expenditures of the fund are complete or that the assets, liabilities, and fund equity are in balance.
- Statements and reports prepared at the county level are not properly reviewed to ensure that they agree with departmental supporting documentation.

County Wide Departments

- Not all departments are depositing receipts with the county treasurer in a timely manner.
- Instances were noted where there was a lack of adequate supporting documentation for vouchers processed through the system or reimbursements of petty cash funds.
- There is a lack of management oversight for department accounting policies and procedures.

The county's decentralized organizational structure inhibits the development and operation of a uniform, effective system of accounting controls. The lack of management oversight, absence of supervisory review procedures, along with the need for additional training contributes to the internal control weaknesses noted above.

These internal control weaknesses have the potential to contribute to loss of revenues, inefficiency in daily operations, inaccurate reporting and inadequate safeguarding of the county's assets.

We recommend:

- District Court ensure all receipts are recorded when received and adjustment or exception reports be reviewed and approved by someone independent of the cashiering function.
- District Court reconcile the trust account to the system and bank statements on a regular basis.
- The ER&R Fund incorporate a general ledger into its accounting system.
- The county road department review reports and statements prepared at the county level to ensure that they agree to departmental supporting documentation.
- All departments deposit daily with the county treasurer.
- All departments provide adequate supporting documentation for any claims against county funds.

We also recommend that management at the departmental level increase oversight and review procedures affecting accounting policies and procedures.

Auditee's Response

- A. *District Court) RCW 3.62.020/RCW 3.62.040 mandate the District Court procedure for transmittal of funds to the County/City Treasurer. The Lincoln County District Court is in compliance with this statute. The trust account is reconciled every 30 days with the bank statement putting us in compliance with state statute. Receipts are deposited daily to the bank. However, money received without the benefit of a case filed, are held in a safe place until such time as either a case is filed or money is returned to the defendant, usually within 2-3 days. The court is pursuing the purchase of a small to medium size combination style safe. Both clerks do cashiering duties. There is not an independent person within the department available to review and approve all adjustments and or exception reports. To ask another department within Lincoln County to perform this function would be a burden on them.*
- B. *County Road Department) ER&R and County Roads will be implementing a new accounting system in 1997 which will provide application of proper procedures and should help with compliance.*
- C. *Countywide) The County will make every effort to tighten policies and procedures in county departments.*

Auditor's Concluding Remarks

We thank the officials and management of Lincoln County for their timely response to our audit findings. We will review these areas in our next regularly scheduled audit.

LINCOLN COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Financial Statements And Additional
Information**

Chairman of the Board of Commissioners
Lincoln County
Davenport, Washington

We have audited the accompanying statements of Fund Resources and Uses Arising from Cash Transactions of the various funds of Lincoln County, Washington, for the fiscal year ended December 31, 1995. These financial statements are the responsibility of the county's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1 to the financial statements, the county prepares its financial statements on the cash basis of accounting that demonstrates compliance with Washington State statutes and the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the recognized revenues and expenditures of the funds of Lincoln County for the fiscal year ended December 31, 1995, on the cash basis of accounting described in Note 1.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of State Financial Assistance is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 21, 1996, on our consideration of the county's internal control structure and a report dated October 21, 1996, on its compliance with laws and regulations.

Brian Sonntag
State Auditor

October 21, 1996

LINCOLN COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

Independent Auditor's Report On Supplementary Information
Schedule Of Federal Financial Assistance

Chairman of the Board of Commissioners
Lincoln County
Davenport, Washington

We have audited the financial statements of Lincoln County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated October 21, 1996. These financial statements are the responsibility of the county's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the financial statements of Lincoln County taken as a whole. The accompanying Schedule of Federal Financial Assistance is presented for purposes of additional analysis and is not a required part of the financial statements. The information in the schedule has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Brian Sonntag
State Auditor

October 21, 1996

LINCOLN COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Compliance With The General Requirements
Applicable To Federal Financial Assistance Programs**

Chairman of the Board of Commissioners
Lincoln County
Davenport, Washington

We have audited the financial statements of Lincoln County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated October 21, 1996.

We have applied procedures to test the county's compliance with the following requirements applicable to its federal financial assistance programs, which are identified in the Schedule of Federal Financial Assistance, for the fiscal year ended December 31, 1995:

- Political activity
- Davis-Bacon Act
- Civil rights
- Cash management
- Federal financial reports
- Drug-Free Workplace Act
- Administrative requirements

The following requirements were determined to be not applicable to its federal financial assistance programs:

- Relocation assistance and real property acquisition
- Allowable costs/cost principles
- Subrecipient monitoring

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's (OMB) *Compliance Supplement for Single Audits of State and Local Governments* or alternative procedures. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the county's compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the county had not complied, in all material respects, with those requirements. However, the results of our procedures disclosed an immaterial instance of noncompliance with those requirements, which is described in the accompanying Schedule of Federal Findings.

This report is intended for the information of management and the chairman of the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record

and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

October 21, 1996

LINCOLN COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Compliance With Specific Requirements
Applicable To Major Federal Financial Assistance Programs**

Chairman of the Board of Commissioners
Lincoln County
Davenport, Washington

We have audited the financial statements of Lincoln County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated October 21, 1996.

We also have audited the county's compliance with the requirements applicable to its major federal financial assistance program, which is identified in the accompanying Schedule of Federal Financial Assistance, for the fiscal year ended December 31, 1995. Those requirements include:

- types of services allowed or unallowed
- eligibility
- matching, level of effort, or earmarking
- reporting
- special tests and provisions related to supporting documents, time extensions, and sampling and testing programs as described in the OMB *Compliance Supplement for Single Audits of State and Local Governments*
- claims for advances and reimbursements
- and amounts claimed or used for matching

The management of the county is responsible for the county's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit of compliance with those requirements in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the county's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed an immaterial instance of noncompliance with the requirements referred to in the second paragraph, which is described in the accompanying Schedule of Federal Findings. We have considered the instance of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, Lincoln County complied, in all material respects, with the requirements referred to in the second paragraph of this report that are applicable to its major federal financial assistance program for the fiscal year ended December 31, 1995.

This report is intended for the information of management and the chairman of the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

October 21, 1996

LINCOLN COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Compliance With Specific Requirements
Applicable To Nonmajor Federal Financial Assistance Program Transactions**

Chairman of the Board of Commissioners
Lincoln County
Davenport, Washington

We have audited the financial statements of Lincoln County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated October 21, 1996.

In connection with our audit of the financial statements of the county and with our consideration of the county's control structure used to administer its federal financial assistance programs, as required by OMB Circular A-128, *Audits of State and Local Governments*, we selected certain transactions applicable to certain nonmajor federal financial assistance programs for the fiscal year ended December 31, 1995. As required by OMB Circular A-128, we have performed auditing procedures to test compliance with the requirements governing allowability of the program expenditures and eligibility of the individuals or groups to whom the county provides federal financial assistance that are applicable to those transactions. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the county's compliance with these requirements. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the preceding paragraph. With respect to the items not tested, nothing came to our attention that caused us to believe that Lincoln County had not complied, in all material respects, with those requirements. However, the results of our procedures disclosed an immaterial instance of noncompliance with those requirements, which is described in the accompanying Schedule of Federal Findings.

This report is intended for the information of management and the chairman of the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

October 21, 1996

LINCOLN COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Internal Control Structure Used In
Administering Federal Financial Assistance Programs**

Chairman of the Board of Commissioners
Lincoln County
Davenport, Washington

We have audited the financial statements of Lincoln County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated October 21, 1996. We have also audited their compliance with requirements applicable to major federal financial assistance programs and have issued our report thereon dated October 21, 1996.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and about whether the county complied with laws and regulations, noncompliance with which would be material to a major federal financial assistance program.

In planning and performing our audit, we considered the county's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and on compliance with requirements applicable to major federal assistance programs and to report on the internal control structure in accordance with OMB Circular A-128. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal financial assistance programs. We have addressed internal control structure policies and procedures relevant to our audit of the financial statements in a separate report dated October 21, 1996.

The management of the county is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- Assets are safeguarded against loss from unauthorized use or disposition.
- Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with the prescribed basis of accounting.
- Federal financial assistance programs are managed in compliance with applicable laws and regulations.

Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal financial assistance programs in the following categories:

- **Accounting Controls**
 - Cash receipts
 - Cash disbursements
 - Purchasing
 - Payroll
 - Property, plant, and equipment
 - General ledger
- **General Requirements**
 - Political activity
 - Davis-Bacon Act
 - Civil rights
 - Cash management
 - Federal financial reports
 - Drug-Free Workplace Act
 - Administrative requirements
- **Specific Requirements**
 - Types of services
 - Eligibility
 - Matching, level of effort, earmarking
 - Reporting
 - Special requirements
- **Claims For Advances And Reimbursements**
- **Amounts Claimed Or Used For Matching**

For all of the applicable internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

The following internal control structure categories were determined to be insignificant to federal financial assistance programs:

- **Accounting Controls**
 - Receivables
 - Accounts payable
 - Receiving
 - Inventory control
- **General Requirements**
 - Relocation assistance and real property acquisition
 - Allowable costs/cost principles
 - Subrecipient monitoring

During the fiscal year ended December 31, 1995, the county expended 92 percent of its total federal financial assistance under a major federal financial assistance program.

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements, and amounts claimed or used for matching that are applicable to the county's major federal financial assistance program, which is identified in the accompanying Schedule of Federal Financial Assistance. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure policies and procedures used in administering federal financial assistance would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal financial assistance program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses.

This report is intended for the information of management and the chairman of the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

October 21, 1996

LINCOLN COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

Schedule Of Federal Findings

1. The County Should Integrate Grant Accounting Into Its General Accounting System

The county has not integrated all of its grant accounting into the county's general accounting system. The vast majority of the grants received by Lincoln County are operated within the Road Fund. Expenditures for county road construction are currently accounted for using a cost accounting system within the county engineers department. Accounting within this system identifies expenditures by road project but does not identify the application of grant funds. Summary information is transferred from the cost accounting system to the county's general accounting system. However, due to system incompatibility, complete grant project numbers cannot be transferred. Thus, the general accounting system is incapable of providing project identification.

The "Common Rule," the *Uniform Administrative Requirements for Grants and Cooperative Agreements With State and Local Governments*, Subpart C. Section_20,(b)(2) Accounting Records, states in part:

Grantees and Subgrantees must maintain records which adequately identify the source and application of funds provided for financial-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income

OMB Circular A-128, *Audits Of State And Local Governments*, paragraph 8.b(1) states in part:

In order to determine which major programs are to be tested for compliance, State and local governments shall identify in their accounts all Federal funds received and expended and the programs under which they were received
....

Lincoln County accounts for transactions and prepares its financial statements on the basis of accounting prescribed by Washington State statutes and the *Budgeting, Accounting, and Reporting System* (BARS) manual as prescribed by the State Auditor. According to BARS, Part 3, Chapter 5, Section A:

1. Grant accounting must be integrated with a municipality's general accounting records . . .
2. Grant accounting must provide for a segregation, by program/activity/function within each grant, of the following . . .
 - d. Expenditures already disbursed . . .
 - f. Non-federal share of costs

Because of the lack of an integrated grant accounting system, we could not trace all expenditures reported on the Schedule of Financial Assistance directly to the county's general accounting system. However, all grant revenues are appropriately recorded; thus, we are reasonably certain that the Schedule of Financial Assistance lists all amounts and sources of grants received by the county.

We recommend county officials integrate all grant accounting with its financial accounting system.

Auditee's Response

Due to the December 21, 1995, fire which consumed the Lincoln County Courthouse, the plans for integration of the grant accounting with the financial accounting system was delayed until the courthouse facility could again be occupied. It is the intent of the County to move toward integration in 1997.

Auditor's Concluding Remarks

We thank the officials and management of Lincoln County for their timely response to our audit findings. We will review these areas in our next regularly scheduled audit.

LINCOLN COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

Status Of Prior Findings

The findings contained in the prior audit report were resolved as follows:

1. The County Should Integrate Grant Accounting Into Its General Accounting System

Resolution: The earliest compliance date will be early 1997 due to destruction of the courthouse facility by fire in late 1995. The finding is repeated.

2. The County's Controls Over Accounting Systems Should Be Improved

Resolutions:

a. Deposits - District Court

The problems remained evident in 1995. The finding is repeated.

b. General Ledger

The system was not completed due to destruction of the courthouse facility by fire in late 1995. The finding is repeated.

c. Minutes From Board Of Commissioners' Meetings

The weaknesses remained in 1995. The finding is repeated.

d. Budgetary Controls

The weaknesses were still pervasive in 1995. The finding is repeated.

e. Receipting

The use of Rediform receipts was resolved. The finding has not been repeated.